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UNITED TECHNOLOGIES CORP  
1300-1430, Thursday, 26 June 1980  
(B Version)

Both you and I in risk assessment business

- You - new ventures?
  - Wisdom of initiatives overseas?
- Me - Much same - just different context

Therefore, thought most useful: give you my assessment

- Conditions overseas
- Potential problems/concerns

1) Economic Political Outlook

Key forces

- \*Price OPEC oil rose 125% in 1979
- \*Restrictive economic policies to stem inflation
- \*Major elections: Japan, USA
- \*Concern over recycling of petro-dollars.  
(OPEC 1980 surplus = \$130B)

Face Period of Poor Econ. Performance

- \*Non-US econ growth down to 2% fm 4% in 1978
- \*Including US = 0.5-1.0%
- \*Political pressures result
  - influence on elections (Jap & FRG)
  - instability (Turkey)
  - rising defense budgets
- \*Financing problems (GR, DEN, PORTUGAL)
- \*Double digit inflation (UK & IT to 15+%)

Third World

- \*Non-OPEC/oil exporting LDCs - GNP growth 8%
- \*Non-oil exporting LDCs

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- oil bill rise to \$14B
- current acct deficit exceed \$50B
- offset will reduce growth 0.5%
- financing problems (BRAZIL, ROK)

#### N-S Deterioration

- \*South increasingly rent by divisions (oil/no oil, Muslim factions; moderates/radicals)
- \*North's problems reduce sympathy for S's problems.

#### Beyond 1980

- \*Lower OPEC oil prod will constrain econ gains
- \*Dev. world growth 2% = sharp pressure on oil prices = further aggravate problems.

- 2) Energy - will continue to be major influence on policy in 1980's

#### Total Energy Supplies

- \*Unlikely to grow during the 1980's. Declining oil supplies.
- \*OECD supplies may grow or decline 1%/yr.

Oil Supplies - On knife edge. Further diminution could cause severe problems.

- \*World production may have peaked. Output likely to decline slowly in 1980's.
- \*Rate of decline depends on new exploration, production decisions in policy-constrained countries, and political changes in key producing countries.
- \*Free world supply will decline 5-25% - most decline in higher quality oils.
- \*OECD's supplies will decline 15-33% because of OPEC/LDC growing needs.

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Specifically We Expect

- \*Persian Gulf output to remain near current levels or decline. (Saudi @9.5 Mb/d is close to capacity)
- \*Other OPEC production will decline.
- \*LDC production will increase depending on Mexican decisions.
- \*N. Sea peaks at 1.5 Mb/d 1982-83
- \*US production reserve down trend now that Alaskan pipeline full.
- \*Non-OPEC oil will be consumed locally. Mexico expected to have cautious policy/can't count on large increases in 1980's.
- \*Communist Countries:

- Soviet production to peak this or next year. Has been flat for past year & will decline.

- Communist oil trade from net export to net import. (pump 132 Mb/d; export 3 Mb/d - 50% to E. Europe/50% to W. Europe for broad currency - oil sales acct for about half all Sov. hard curr. earnings)

- depleted old wells/failed develop new ones in different outlying fields.
- tech. shortages - part of problem
- massive infusions labor & investment needed, but decision-making too slow.

- Soviet oil production declines, could

- increase pressure on finite world supplies, or
- lacking hard currency, might be tempted to cut into Middle East supplies in other ways.

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-Would be hard for us to keep without

- change in Afghanistan
- possibly revitalization of SALT II

#### Other Energy Supplies

- \* Increased coal and nuclear supplies likely to largely offset decline in OECD oil supplies.
- \* Growth in energy sources will be limited politically and environmentally.
- \* Solar, geothermal, biomass sources unlikely to make major contributions in the 1980's due to technical and economic considerations.

### 3. Strategic Materials Outlook in the 1980's

- \* Like oil, once near-total US self-sufficiency in raw materials has eroded.
- \* Unlike oil, the world has sufficient reserves of critical raw materials for foreseeable future.
- \* Basic materials needed by industry and critical for defense include bauxite, chromium, cobalt, manganese, nickel, platinum, and tungsten.
- \* The invasion of Zaire in 1978 cut off cobalt production; illustrated Western vulnerability to supply disruption.

### 4. Implications for Business

- \* Short supplies = energy prices rise rapidly
- \* Periodic oil shortages
- \* Stagnating energy supplies will make acceptable rates of economic growth difficult to achieve even with improved conservation.
- \* Escalating energy prices/slower economic growth will depress investment and slow rate of substitution of more energy-efficient, durable goods, complicating adjustment process

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- \* Other strategic materials' prices are bound to rise
- \* For most of these materials, US will be able to meet all its needs from dependable foreign sources such as Canada and Australia.
- \* Chrome, cobalt, and platinum are exceptions; African nations, with uncertain prospects for stability, will remain with major suppliers.
- \* Terrorists could disrupt supply.
- \* Some firms, e.g., aircraft manufacturers, are switching to inferior substitute parts to avoid dependence on these supply sources.

#### 5. World Power Centers

- \* The club of nuclear power is likely to grow. But the greatest threat to stability is likely to come in conventional arms. Sophisticated arms will be available from an increasing number of sources.
- \* Another paradox: Projection of power any distance will become more difficult--growing size of opposing conventional armories, domestic uncertainties that will preoccupy governments, maneuvering room in a multi-polar (or nonpolar) world, and logistical costs of power projection.
- \* The major alliances--notably NATO--will become less cohesive as intra-alliance issues are increasingly attacked.
- \* Domestic tensions will increase in many countries, including some in the Communist world. In some (particularly the West) these tensions will take the form of interclass frictions; elsewhere they may be ethnic or communal.

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- \* Many of the major non-OECD countries (Nigeria, Brazil, Egypt) are vulnerable to domestic turmoil. The region between Turkey and India is likely to see drastic change.
- \* For all countries--and for business--an ever-increasing premium will be placed on tactical flexibility and quick reflexes.

6. IC and Business Community

- \* CIA research is available to business
- -Annually release 60-70 unclass reports:
  - Economic statistics
  - Directories of foreign government officials
  - Maps and atlases
  - Annual terrorism report

-Access

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